

A. Mr. Starkey raises similar arguments regarding loop pricing in both the wholesale and network element context. My full response appears later in connection with network element tariff issues.

Q. Several of the parties contend that Ameritech Illinois' unbundled loop switching ("ULS") offering is deficient. Would you summarize their positions?

A. Yes. Mr. Gillan contends that the Company's ULS offering suffers from the following flaws:

- it does not recognize the purchasing carrier as the provider of exchange access services to IXCs and does not provide the purchasing carrier with the necessary billing data to render access bills;
- it does not permit the purchasing carrier to use the common switched network to terminate calls at TELRIC rates; and
- it does not guarantee dialing parity for OS and DA services (Gillan, pp. 17-18)

Mr. Jennings raises the same issues relative to carrier access.

Mr. Fonteix makes the following claims relative to ULS:

- it does not include the requisite customized

routing functions;

- it imposes "gross restrictions" on the use of ULS with respect to call termination services;
- features and functions that are not offered on a retail basis are subject to a bona fide request (BFR) process;
- Centrex capabilities have been excluded; and
- the "Billing Development" charge is inappropriate.

(Fonteix, pp. 21-23)

I will address all of the issues raised by Mr. Gillan and the first two issues raised by Mr. Fonteix. Mr. Dunny and Mr. Heinmiller will address the remainder of Mr. Fonteix' issues.

Q. Does Ameritech Illinois' ULS tariff preclude purchasing carriers from billing the IXC's for carrier access services?

A. No. Mr. Gillan and Mr. Jennings have misinterpreted the Company's ULS tariff. Ameritech Illinois fully expects that subscribers to the Company's unbundled local switching offering will bill the IXC's for the portion of the applicable access charges that relate to the service they, in fact, provide. The clarification that Staff and CompTel seek is, in my opinion, not properly part of the ULS tariff. The ULS tariff

properly describes Ameritech Illinois' charges to its carrier customer subscribing to ULS, not whether the ULS customer may then charge its IXC carrier customers for use of its facilities. That would be part of the purchasing carrier's tariffs.

Q. Do you agree with Mr. Gillan's view that subscribers to unbundled local switching are entitled to all carrier access revenue associated with traffic they originate or terminate?

A. No. I am in full agreement with Mr. Gillan and Mr. Jennings that Ameritech Illinois should not charge the local switching access charge element for traffic originated from a ULS line port. Since Ameritech Illinois is billing the ULS subscriber for originating switching minutes of use at ULS rates for calls sent to an IXC, it would be contrary to the "platform" framework established by this Commission for Ameritech Illinois to also charge the IXC for originating end office switching under its access tariffs. Therefore, Ameritech Illinois intends to suppress local switching access charges to the IXCs for this originating traffic and the necessary procedures to accomplish this result have been developed.

My position is somewhat different relative to the interstate carrier common line charge ("CCL") and residual interconnection charge ("RIC"). In Docket 96-98, the FCC adopted a transition plan for interstate carrier access charges associated with unbundled local switching, which permits the incumbent local exchange company to collect the carrier common line charge and 75% of the RIC until the earliest of the following events: (1) June 30, 1997; (2) the final date of an order in certain FCC dockets; or (3) the RBOC receiving interLATA authority. 47 C.F.R. Section 51.515. Therefore, under this transition plan, the ULS subscriber is billed a portion of the interstate RIC and all of the interstate CCL.

I recognize that this section of the FCC's Rules was stayed by the 8th Circuit, along with the rest of the applicable pricing rules. In this circumstance, the Company had two choices: (1) bill the purchasing ULS carrier the interstate CCL and the RIC (as contemplated by the FCC's rules); or (2) bill the IXCs the CCL and the RIC as the Company does today under its existing access tariffs. Ameritech Illinois has elected the second option because it is consistent with existing tariff arrangements and is the most efficient and cost effective method of recovering the subsidies resident in the RIC and CCL. This is an FCC issue in any event.

This is not inconsistent with the Commission's Wholesale/Resale order. Interstate access charges are subject to the FCC's jurisdiction. Although this Commission stated in the Wholesale/Resale order that there was no jurisdictional bar to its resolving interstate access issues (at p. 65), the FCC's subsequent order in Docket 96-98 makes clear that there is one. The FCC has not given the states carte blanche to decide which carrier should pay and/or collect interstate carrier access charges. The fact that the transition plan has been stayed does not decrease the FCC's jurisdiction or increase this Commission's jurisdiction over interstate services. Therefore, I believe the Company's approach is appropriate.

With respect to intrastate carrier access charges, I agree that, under the terms of the Commission's Wholesale/Resale order, carriers purchasing unbundled local switching are entitled to access revenues associated with local switching. The FCC's rule -- even if it had not been stayed -- requires this result as soon as there is a state commission decision that the incumbent LEC "may not assess such charges". 47 C.F.R. Section 51.515(c)(2). Thus, Ameritech Illinois will not bill an intrastate CCL (which does not exist

anyway) or the intrastate RIC on access traffic originated by carriers subscribing to ULS.

- Q. Is Mr. Gillan correct that Ameritech Illinois will provide only end user billing data (Gillan, p. 19)?
- A. No. The Company will provide a bill detail feed to ULS subscribers on a daily basis which will permit them to bill originating carrier access charges to the IXC's. In fact, one CLEC is already receiving this information. Thus, Mr. Gillan's concerns about billing data are totally unwarranted.
- Q. What is the Company's position on terminating access charges?
- A. This depends on the ULS arrangement to which the competitive carrier subscribes. I describe these two arrangements in more detail when I respond to Mr. Gillan's complaint about the usage charges applicable to ULS subscribers and the associated debate over unbundled transport.

Carriers subscribing to ULS and unbundled local transport (i.e. dedicated or shared/dedicated transport) will bill the IXC for terminating access. For carriers subscribing to the hybrid ULS arrangement

which terminates traffic using the public switched network, Ameritech Illinois' ULS tariff does not charge for the usage underlying terminating access calls. The ULS subscriber is only charged for originating minutes (whether access or intraMSA usage). Since the ULS carriers will not bear any of the switching costs associated with this terminating access traffic, they are not entitled to the local switching access revenues. Ameritech Illinois, therefore, will continue to charge the IXCs for terminating access.

- Q. Which carrier charges the IXCs the access charges associated with transport?
- A. This depends on which carriers' facilities are used to provide the transport. If the ULS subscriber purchases unbundled transport (i.e. dedicated or shared/dedicated transport), or provides its own, it incurs the underlying transport costs and will bill the IXC for the transport component of carrier access. If the ULS subscriber uses Ameritech Illinois' switched network to terminate its traffic, the ULS subscriber pays nothing under the ULS tariff for terminating access traffic; Ameritech Illinois instead incurs the transport costs for that carrier access; and Ameritech Illinois should properly bill the IXC. This issue ties into the transport issue which I will discuss next.

- Q. Mr. Gillan's contends that the ULS tariff inappropriately imposes "retail" rather than network element charges on intraMSA traffic (i.e. Bands A, B and C calling) originated by the ULS carrier. Would you comment?
- A. Yes. This is part of a larger issue which other carriers have described as a defect in the Company's unbundled transport offering (See e.g. Fonteix, pp. 38-39; Marzullo, pp. 11-12). Mr. Gillan's issue has to be viewed in its larger context.

These arguments relate to a debate currently before the FCC in the reconsideration proceedings in Docket 96-98. This debate involves what they call "common transport" and whether "common transport", which is some combined form of tandem switching and common transport, can be a network element. Ameritech Illinois has taken the position that, in order to qualify as a network element, unbundled transport must be unbundled from switching and must be a dedicated facility to which one carrier subscribes or which is shared by several carriers. This is what Mr. Gillan describes as "dedicated" and "shared-dedicated" transport (Gillan, p. 19). As stated to the FCC in its pleadings, Ameritech Illinois' believes that its position is



consistent with the FCC's definition of a network element and the distinction which the FCC has drawn between network elements and services.

In their Petitions for Reconsideration, CompTel and several of the other IXCs have asked the FCC to define a network element that would permit use of the entire public switched network without establishing any discrete, physically dedicated facilities and without imposing any financial risk on the carriers. The carriers call this "common transport". They claim that it is a network element and that it should be priced at TELRIC rates. This "common transport" is what Mr. Gillan is referring to when he claims that Ameritech Illinois' ULS tariff should permit the carrier to terminate traffic "within the local network using Ameritech's common interoffice network at cost-based network rates" (Gillan, p. 18).

In Ameritech Illinois' view, "common transport" is not a network element. In fact, it is indistinguishable from switched access service, from both a functional and "risk" perspective. Switched access is a service; it is, in no way, a network element; and it should be priced accordingly.

Q. Is this an issue that this Commission should attempt to resolve in this proceeding?

A. No. This is properly an FCC issue, since it involves interpretation of the FCC's Order in Docket 96-98 and the FCC's rules. Since the FCC will clearly have to resolve the carriers' request for "common transport" in its order on reconsideration, there is no reason for this Commission to attempt to resolve it now based on an incomplete record.

Q. Then what are you recommending relative to certifying checklist compliance for unbundled transport?

A. This Commission can and should certify that the Company's existing unbundled transport offering meets the checklist requirement that transport be unbundled from switching, based on the existing FCC regulations. 47 C.F.R. 51.319(d). There is no dispute that the two unbundled transport options that the Company does offer (i.e., dedicated and shared/dedicated transport) meet the existing definition of network elements and are being made available. The dispute is over whether there should be a new third option that is not currently contemplated by the FCC's rules. Ameritech Illinois will, obviously, comply with whatever decision the FCC reaches on this issue. This Commission should

confirm that the unbundled transport offerings that are available today satisfy the checklist and defer the "common transport" debate to the FCC.

Q. Please explain how Mr. Gillan's complaint that the Company's tariff requires the ULS carrier to pay "retail-based usage charges" fits into this debate (Gillan, p. 18).

A. In the current ULS tariff there are two possible arrangements. First, the Company's offering can be rebundled with other bona fide network elements to provide a complete end-to-end service (i.e., local loops, ULS line and trunk ports and dedicated or shared/dedicated transport).

Second, recognizing that not all carriers will originate enough traffic to make either form of dedicated transport economic, the Company voluntarily developed an alternative ULS option. For carriers with lower traffic volumes, they may purchase unbundled loops and unbundled switching (thereby obtaining the pricing advantages of ULS for central office functions), but also having the ability to terminate their traffic over Ameritech Illinois' public switched network (rather than through network elements and/or their own facilities). In effect, this option allows

the carrier to combine two network elements (i.e. unbundled loops and unbundled switching) with a wholesale service -- i.e. intraMSA usage. This hybrid arrangement was never contemplated in the debate over the platform offering in the Wholesale/Resale case or by the FCC:

"[W]e do not address the issue of whether the 1996 Act permits a new entrant to offer services to the same set of consumers through a combination of unbundled elements and services available for resale." Order in Docket 96-325, ¶ 341.

- Q. What charges for terminating traffic do subscribers to these two options pay to terminate their intraMSA traffic?
- A. Carriers which subscribe exclusively to unbundled elements, including unbundled transport (i.e. dedicated or dedicated/shared transport) do not pay retail-based usage charges. The AT&T arbitration decision will establish cost-based rates for unbundled transport. Thus, ULS subscribers will pay those rates if they actually combine unbundled local switching with dedicated or dedicated/shared transport network elements to create an end-to-end service.

In the hybrid network element/wholesale service offering which the Company has developed, the carrier is subscribing to a service to terminate its traffic

and, therefore, is charged on a service-basis. Since the service provided by Ameritech Illinois is indistinguishable from wholesale usage (from both a functional and "risk" perspective), Ameritech Illinois believes that wholesale usage rates are appropriate. It is this service-based charging model to which Mr. Gillan objects.

Q. Could application of wholesale usage rates be impacted if the FCC decides that "common transport" is a network element?

A. Yes. If CompTel and the other carriers prevail at the FCC on the "common transport" issue, then Ameritech Illinois will have to modify its tariffs to define the "common transport" rates which should be applied in the hybrid ULS offering, instead of wholesale usage.

Q. Can the Commission certify the Company's compliance with the checklist requirement relative to unbundled switching with this issue pending?

A. Yes. This is really an FCC policy issue -- not a checklist compliance issue. This Commission can and should certify that the Company's existing ULS offering clearly meets the checklist requirement that local switching be unbundled from loops and transport. In

addition, Ameritech Illinois offers the common interoffice network option which CompTel seeks. This is all -- in fact, this is more -- than is required to satisfy the checklist.

With respect to CompTel's complaint, it is up to the FCC to determine, in the first instance, whether common transport is a network element required by the federal Act. If it is determined to be a network element, then the FCC will determine the price for interstate use and this Commission will have to determine the price for intrastate use. However, the pricing issues can be addressed later after the FCC resolves this network element dispute on reconsideration in Docket 96-98.

Q. Both CompTel and AT&T contend that ULS should guarantee the availability of "customized routing" of OS and DA calls (Gillan, p. 21; Fonteix, pp. 25-26). AT&T further contends that any costs associated with such routing should be recovered on a "competitively neutral" basis (Fonteix, pp. 26-27). Do you agree?

A. No. This is the same issue regarding stripping and branding which I discussed previously and which Mr. Heinmiller addresses in more detail. Furthermore, this Commission ruled in the Wholesale/Resale case that the competitive carriers should bear the costs which

Ameritech Illinois incurs to meet their demands. A "competitively neutral" cost-recovery mechanism would impose most of these costs on Ameritech Illinois, since Ameritech Illinois is likely to have the majority of the minutes of use in the intraMSA marketplace. This is inconsistent with the philosophy of the Wholesale/Resale order and should not be adopted.

Q. Mr. Starkey contends that Ameritech Illinois' unbundled loop prices cause a price squeeze (Starkey, pp. 24-29). Would you comment?

A. Yes. There are both methodological and conceptual problems with Mr. Starkey's analysis.

I will discuss the methodological problems first. The "sum-of-the parts" rule adopted in the Customers First order combines the loop price, the port price and a portion of the service connection charges (Order in Docket 94-0096, pp. 58-59, 60). The Company's pricing analysis, which assumed that carriers would order in minimum increments of 10 loops, was accepted in its compliance filing. This approach reduces the service connection fee ("SCF") in Mr. Starkey's analysis from \$4.24 (which is not a rate which I recognize in any event) to \$.15 ( $\$1.50 \text{ SCF}/10 = \$0.15$ ). In addition, the port rate for access Area B residence lines is zero,

not the \$1.10 used by Mr. Starkey in his analysis. If these errors are corrected, there is no "squeeze" at all for Access Area B business lines and the "squeeze" for Access Area B residence lines is \$1.18, not \$6.37.

Conceptually, however, I do not believe that the "sum-of-the-parts" rule has a valid role in evaluating the prices of unbundled network elements. The federal Act makes clear that they must be priced based on "cost" plus a "reasonable profit". The TELRIC proceeding will permit a final determination as to what these terms mean. In the interim, the Commission will be adopting cost-based rates in the arbitrations based on Staff's methodology. In any event, the federal Act does not permit below-cost pricing of network elements, even to further universal service or other social goals.

If there is a discontinuity between Ameritech Illinois retail end user rates for network access lines and unbundled loop prices, the problem lies in the retail rates -- not the unbundled loop prices. If retail access line rates for some residence customers are so low that competitors using unbundled loops have minimal -- or negative -- margins on that portion of their local service package, then the right solution is to raise retail residence access line rates to competitively viable levels.



I recognize that this raises both public policy and legal issues. Some policy makers find it counterintuitive that the advent of competition can cause prices for some services to increase. This view ignores the distortive effect which well-meaning -- but economically unsound -- regulatory policies designed to promote universal service have historically had on access line prices. The fact that Section 13-506.1(c) of the Act prohibits any increases in residence access line prices for Ameritech Illinois until November, 1997, and that the Commission's order in the Alternative Regulation proceeding extended that price cap for the full five years of the plan present legal problems.

The Commission and the parties will clearly have to work together to resolve this policy issue. The right answer is not to artificially depress unbundled or wholesale loop prices, thereby encouraging uneconomic decisions by competitors. One approach would be to plan now to review residence access line prices after the TELRIC docket is concluded next year and make adjustments if adjustments are necessary. At that point, the 3-year statutory prohibition on residence access line price increases is close to its end and the 5-year Alternative Regulation order price cap could be

modified upon order of the Commission. In the interim, the Commission can and should recognize that access lines generate only a portion of the total revenue stream from local service, and account for an even smaller portion of the profits, whether provided on a wholesale or unbundled basis. Competitors can and will successfully enter the marketplace, even if access line pricing is not "perfect".

Alternatively, the Commission should initiate a proceeding to develop universal service-type funding mechanisms that will support all LECs during whatever period that these rate discontinuities persist.

Q. AT&T claims that the uncertainty over prices that results from the pending appeals and the 8th Circuit stay order must be rectified by a firm commitment by Ameritech Illinois to a set of prices that would not be changed, regardless of the outcome of the litigation (Puljung, pp. 26-28). Do you agree?

A. No. This is totally unreasonable and AT&T knows it. Furthermore, there would be uncertainty even if there had been no appeals. AT&T itself asked that the TELRIC cost studies and all pricing issues relative to the TELRIC studies be removed from the arbitrations (where AT&T could have obtained more "certainty") and deferred

to a separate cost proceeding. That docket (Docket 95-0486) is not expected to be completed until the middle of next year.

CONCLUSION

Q. Does that conclude your testimony?

A. Yes.

## Illinois Checklist Compliance Summary

Checklist Item		Current Availability	Pricing Standard/ Prices Established	OSS Implementation
i	Interconnection	Yes	252(d)(1) See Note A.	Complete except for Billing (12/96).
ii	Access to Network Elements	Yes, as described herein and per SGAT.	252(d)(1) See Note A.	See Individual Ele- ments.
iii	Poles, Ducts, Con- duits and Rights- of-Way	Yes - To Cable Compa- nies, DCCs, CAPs, CLECs.	Section 224; Ill Admin. Code	Complete except for Provisioning and Billing (12/96).
iv	Local Loops	Yes	252(d)(1) See Note A.	Complete except for Pre Ordering & Billing (12/96).
v	Local Transport	Yes - via Dedicated Ac- cess Services.	252(d)(1) See Note A.	Complete 12/96.
vi	Local Switching	11/27/96 SGAT 11/27/96 ATT Arbitration.	252(d)(1) See Note A.	Complete 12/96.
vii	911, DA & Operator Services	Yes - MFS, MCI Micro, TCG.	252(d)(1) See Note A.	Complete 12/96.
viii	White Page Listing	Yes - With no charge to CLECs for basic listings.	252(d)(1) See Note A.	Complete.
ix	Number Administration	Yes	N/A	per ICCF Central Office Code As- signment Guidelines
x	Signaling & Call Related Databases	Yes	252(d)(1) See Note A.	Complete 12/96.
xi	Number Portability	Yes	Zero priced w/ cost tracking per Order in Dkt. 95-0296.	Complete 12/96.
xii	Local Dialing Parity	Yes	N/A	Complete.
xiii	Reciprocal Compensation	Yes	252(d)(2) See Note A.	Complete except for Provisioning (12/96).
xiv	Resale	Yes	252(d)(3) See Note B.	Complete (12/96).

Note A: Current in-service quantities are based on prices arrived at through negotiated agreements and existing approved tariffs. The ATT arbitration decision will produce TA '96 prices by 11/27/96 which will remain effective until the Cost Docket, 96-0486, is completed 8/1/97. Ameritech has requested that the Commission, as part of the ATT arbitration case, change the GSAT pricing so that it conforms with the ATT levels.

Note B: The Commission established wholesale prices in its 6/26/96 order in Dkt 95-0458/95-0531. Tariffs became effective 8/10/96 and are being revised through the 11/19/96 filing, which is scheduled to become effective on 1/3/97.



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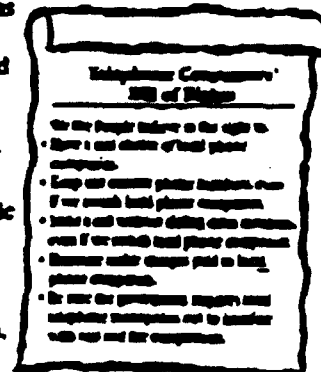
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December 12, 1996

Ms. Dorothy Wideman  
Executive Secretary  
Michigan Public Service Commission  
6545 Mercantile Way  
Lansing, MI 48909

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COMMISSION

**RE: Case No. U-11104 - Service List**

Dear Ms. Wideman:

Please remove Larry Salustro's name from the U-11104 Service List and replace with Ms. Joan Marsh at the same address.

I apologize for any inconvenience this may cause you. If you have any questions, please feel free to call me on (312) 230-3139.

Thank you for your assistance, it is greatly appreciated.

Sincerely,

*Paulette Bannack/lec*

Paulette Bannack  
Advocacy Manager - Michigan

cc: All Parties of Record

96-1735

AT&T



